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## **Turkmenistan**

## **Cotton and Products**

## **Annual**

## **2002**

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### **Report Highlights:**

**Turkmen cotton production continues to fall well below target levels and is projected at about 182,000 tons in MY 2002, close to the MY 2001 level. Drought conditions adversely effected the 2001 crop, while excessive rains have delayed the harvest and lowered expectations for 2002. Modern textile factories are working at levels well below capacity, due to shortages of lint.**

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Includes PSD changes: Yes

Includes Trade Matrix: No

Annual Report

Ankara [TU1], TX

**Executive Summary**

Turkmen cotton production continues to fall far short of the government's official target of 770,000 tons. Total production in 2002 will be close to the 2001 level of 185,000 MT. Excessive rainfall and is expected to lower the quality of the crop and could delay the 2002 harvest by three-four weeks. Seeds did not germinate properly, root rot affected seedlings and replanting was necessary.

**PRODUCTION**

Cotton is the primary cash crop for the country, and together with natural gas, brings in most of the foreign earnings for Turkmenistan. Only a hand full of farms have been privatized since independence, and even private farms may be expected to relinquish their crops to local officials for government gins. A Turkish joint venture with the Presidential Fund produced under 1,000 tons this year but is hoping to increase production in MY 2002.

Production is under a State Marketing Order system. Unrealistically high production targets are set by the government with oversight by the President. At the same time that unobtainable goals are set for cotton, the same is being done for wheat, setting up a competition for resources between the two crops. Yields are low and are not improving. Inputs are scarce. Poor water use has led to damaged soils over much of the producing area. Arable land is quite limited in Turkmenistan, amounting to only three percent of the landmass, about 1.7 m hectares in total, and current utilization is fast approaching the limits. Soviet-era irrigation systems, combined with inadequate maintenance and uneven water application over fields, are leading to much soil damage. Pressures to produce at unsustainable levels are damaging the future of cotton production in Turkmenistan.

The President established official targets for MY 2001 of 764,000 hectares and 1.758,350 MT seed cotton (545,000 tons cotton fiber) and expects his farmers to reach 3 mmt by 2010. A regional drought, overtaxed land, and a lack of inputs all combined to limit the harvest in 2001. Actual harvested area and production in MY2001 were closer to 515,000 hectares and 185,000 cotton lint. While the President eventually announced that the crop fell short of expectations, a similarly unrealistic level was established for the MY 2002 marketing year. Estimated distribution of planted area by region in MY 2001 was Akhal 15%; Balkan 1%; Tashauz 25%; Lebap 24% and Mary 33%, while seed cotton production distribution by area was Akhal14%; Balkan 1%; Tashauz 26%; Lebap 35%; and Mary 24%.

Farmers receive fuel, fertilizer, machinery, and 50% of these costs are deducted from proceeds when they deliver their seed cotton to the gins. The benefits of these subsidies, however, are negated by the low prices which are received under the government managed system of payments. cotton producers face problems which include poor seed quality and mixed varieties, water problems (deteriorating irrigation systems, rising water tables, lessening supply), lack of working, affordable equipment, no real grading system, white fly infestation, and a lack of timely payment for crops. Some attempts are being made by the Government of Turkmenistan to overcome some of these problems, but with the pressures to produce wheat, cotton producers have little hope of receiving much assistance in improving their yields.

Increasing acreage is extremely difficult, as the drive to become self-sufficient in wheat has led to the use of marginal lands for wheat, leaves little possibilities for cotton acreage. Much of the production is hand-picked and is of good quality. Machine-picked cotton sells at a discount, due to a larger amount of foreign material being present.

In a change from previous policy, for MY 2002 the Government is directing the gins to "return" cotton seed to the farmer, after the product is ginned, and the farmers will be allowed to sell their seed directly to oil mills. Previously both lint and seed remained property of the state after delivery to the gin.

Farmers receive a base price of about one million manat/ton which on the unofficial exchange is equivalent to about \$40/ton less sizeable deductions for fuel, fertilizer and machinery costs, and further deductions for quality factors and humidity content.

### **CONSUMPTION**

Domestic consumption should consume up to 40% of the crop each year, although at under 60,000 tons, the quantity available in MY 2001 after fulfilling export contracts, fell far short of this amount. Recent investments in textile and yarn production have diversified Turkmenistan's exports to include cloth and yarn, but it remains a difficult environment to operate in due to currency convertibility problems. Some of the textile firms are producing ready-wear for Sara Lee's Hanes brand, among others.

### **TRADE**

Prepayment has been the structure of choice for the three or four large traders who handle the bulk of the export market. Contracts with the government had been signed as early as February in some years, but had not yet been signed in June, 2002. Low world market prices appear to have made it even more difficult for the Government Cotton Board to decide on the level/types of contracts to use for MY2003 production. There are no reliable official statistics available from the government on cotton trade. Final export destinations are not readily identifiable, since so much transshipment occurs. Industry sources indicate that 25-30% is destined to Russia and C. Asia Republics, 25-30% to Asia (Bangladesh, Pakistan, Thailand, Indonesia, Bangladesh,) and the balance to Belgium, Italy, Germany and E. Europe. Prices for Turkmen cotton are discounted from Uzbek. Turkmen fiber length varies from 1 3/32 to 11/8 and varieties are intermingled, reducing desirability.

### **Policy**

The President continues to take decreased production levels quite seriously and has exhorted the farmers to increase production. All able-bodied people were expected to harvest the crop last fall. During a trip through Mary during the harvest period, private cars were virtually banned from the roads during harvest hours and many offices had to close. Agricultural inputs in the past were often obtained from Russia, in barter deals for natural gas.

To help rehabilitate cropland and bring new area into production, the President proposed a \$6 billion project to build a lake in northwestern Turkmenistan, in the Kara Kum Desert, to collect field runoff from across the country. The runoff will be channeled across the country in unlined canals to accumulate in a depression. The runoff will join together with the waters from a drained swamp and be

desalinated, cleaned, and purified before entering into the lake. A ten-year project, it has three objectives - to clean up the existing water sources by diverting the pesticide and herbicide-laden waters from returning to the Amu Darya river or the Kara Kum canal, to provide new croplands in place of the existing swampland, and to provide entertainment and water sporting opportunities for the Turkmen people. Each Ministry within the government has been assigned to contribute funds to this project, which will divert already scarce funds from other cash-starved projects.

#### Stocks

Stocks were overestimated for the past few years and have been adjusted to reflect new information.

|                        |              |         |             |         |                |         |
|------------------------|--------------|---------|-------------|---------|----------------|---------|
| PSD Table              |              |         |             |         |                |         |
| Country                | Turkmenistan |         |             |         |                |         |
| Commodity              | Cotton       |         |             |         | (HECTARES)(MT) |         |
|                        | Revised      | 2000    | Preliminary | 2001    | Forecast       | 2002    |
|                        | Old          | New     | Old         | New     | Old            | New     |
| Market Year Begin      |              | 08/2000 |             | 08/2001 |                | 08/2002 |
| Area Planted           | 0            | 550,000 | 0           | 540,000 | 0              | 530,000 |
| Area Harvested         | 475000       | 475,000 | 500000      | 515,000 | 0              | 510,000 |
| Beginning Stocks       | 140216       | 95,000  | 107557      | 70000   | 123886         | 85000   |
| Production             | 190511       | 180,000 | 195954      | 185,000 | 0              | 182,000 |
| Imports                | 0            | 0       | 0           | 0       | 0              | 0       |
| TOTAL SUPPLY           | 330727       | 275000  | 303511      | 255000  | 123886         | 267000  |
| Exports                | 146965       | 135,000 | 97977       | 115,000 | 0              | 118,000 |
| USE Dom. Consumption   | 76204        | 70,000  | 81647       | 55,000  | 0              | 69,000  |
| Loss Dom. Consumption  | 0            | 0       | 0           | 0       | 0              | 0       |
| TOTAL Dom. Consumption | 76204        | 70000   | 81647       | 55000   | 0              | 69000   |
| Ending Stocks          | 107557       | 70,000  | 123886      | 85,000  | 0              | 80,000  |
| TOTAL DISTRIBUTION     | 330726       | 275000  | 303510      | 255000  | 0              | 267000  |